

March 28, 2019

VIA EMAIL & HAND DELIVERY

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL & HAND DELIVERY

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

RE: Single Audit of the State of Hawai'i

Dear President Kouchi and Speaker Saiki:

The single audit of the State of Hawai'i for the fiscal year ended June 30, 2018, was issued on March 6, 2019. The Office of the Auditor retained Accuity LLP to perform the single audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the single audit report.

You may view the single audit report and Auditor's Summary on our website at:

http://files.hawaii.gov/auditor/Reports/2018_Audit/SOH_SA_FY2018.pdf; and

http://files.hawaii.gov/auditor/Reports/2018_Audit/SingleAudit_Summary_2018.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

ec/attach (Auditor's Summary only): Senators

Representatives

Brian Takeshita, House Chief Clerk

Carol Taniguchi, Senate Chief Clerk

Auditor's Summary

Single Audit of Federal Financial Assistance Programs of the State of Hawai'i

Financial Statements, Fiscal Year Ended June 30, 2018



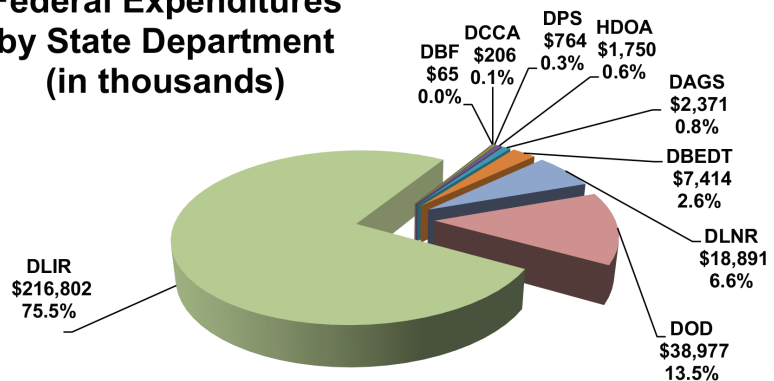
ILLUSTRATION: THINKSTOCK.COM

THE PRIMARY PURPOSE of the audit for the fiscal year ended June 30, 2018, was to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.

About the Report

THIS REPORT INCLUDES the total federal expenditures and findings related to only those departments that are included in the State of Hawai'i Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2018. Federal expenditures totaled approximately \$287.2 million. Other departments' federal expenditures and findings are reported in their individual audit reports.

Federal Expenditures by State Department (in thousands)



Auditors' Report on Internal Controls over Financial Reporting

THE AUDITORS IDENTIFIED three significant deficiencies in internal controls over financial reporting that are required to be reported in accordance with *Government Auditing Standards*.

Significant Deficiencies (3)

- Inefficiencies in the financial statement preparation process resulted in the auditors making numerous adjusting and reclassification entries;
- Certain component units and proprietary funds were incorrectly included in the governmental activities and respective governmental funds in the State’s Comprehensive Annual Financial Report; and
- Lack of IT internal controls over systems operated by the Department of Taxation and Department of Labor and Industrial Relations.

Auditors’ Report on Compliance with Major Federal Programs

The auditors expressed a qualified opinion on certain major programs and identified 4 material weaknesses and 10 significant deficiencies over compliance with major federal programs that are required to be reported in accordance with the *Uniform Guidance*.

Material Weaknesses (4)

- Lack of controls delayed disbursement of federal funds;
- Failure to execute the Cash Management Improvement Act Agreement between the U.S. Treasury and the State; and
- Failure to meet earmarking requirements (2).

Significant Deficiencies (10)

- Deficiencies in internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA);
- Deficiencies in the payment process delayed disbursement of federal funds (3);
- Lack of internal controls delayed the recording of newly acquired property;
- Lack of review procedures resulted in reporting misstated expenditures;
- Failure to review subrecipient’s audit report;
- Failure to ensure contractor was not federally suspended or debarred (2); and
- Failure to obtain memoranda of understanding to assess the cultural significance of properties nominated to the National Register of Historic Places.

Classification of Findings

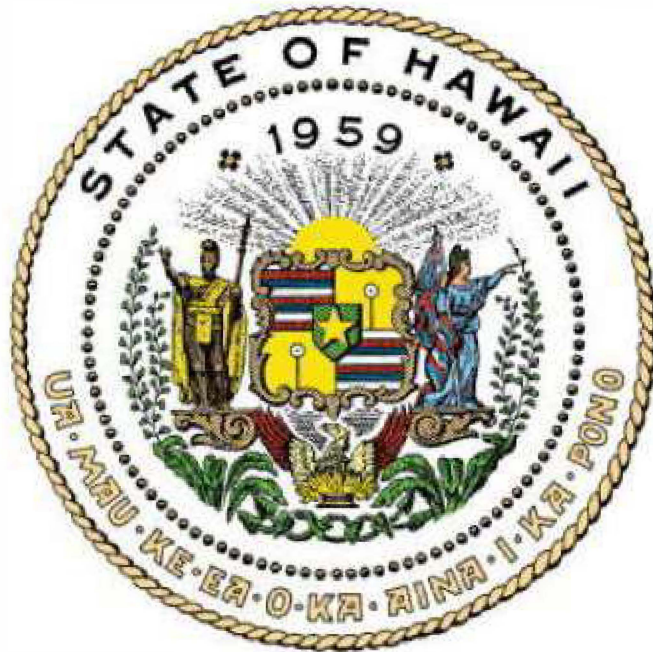
DEPARTMENTS & AGENCIES	FINANCIAL REPORTING		FEDERAL PROGRAM COMPLIANCE		TOTALS
	Material Weakness	Significant Deficiency	Material Weakness	Significant Deficiency	
Land and Natural Resources (DLNR)	-	-	1	7	8
Accounting and General Services (DAGS)	-	3	-	1	4
Labor & Industrial Relations (DLIR)	-	-	2	2	4
Business, Economic Development and Tourism (DBEDT)	-	-	1	-	1
TOTALS	0	3	4	10	17

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2018_Audit/SOH_SA_FY2018.pdf

STATE OF HAWAII

SINGLE AUDIT OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018



CURT T. OTAGURO
COMPTROLLER

Independent Audit Contracted and Administered by
Office of the State Auditor

State of Hawaii
Single Audit of Federal Financial Assistance Programs
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**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND UNIFORM GUIDANCE
COMPLIANCE REPORTS**

**Report of Independent Auditors on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii (the State) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 14, 2018.

Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation – Airports and Harbors Divisions, which are major enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund, and the Drinking Water Treatment Revolving Loan Fund, which are nonmajor enterprise funds; the Hawaii Employer-Union Health Benefits Trust Fund, an agency of the State; and the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings No. 2018-001 through 2018-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 14, 2018

**Report of Independent Auditors on Compliance for Each Major Program,
Internal Control Over Compliance, and the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii's Department of Accounting and General Services, Department of Agriculture, Department of Budget and Finance, Department of Business, Economic Development and Tourism, Department of Commerce and Consumer Affairs, Department of Defense, Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Land and Natural Resources, Department of Public Safety, Department of Taxation, and the Governor's Office (collectively, the State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2018. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The State of Hawaii's basic financial statements include, among other departments and agencies, the operations of: Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended \$3,538,443,438 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2018. Our audit, described below, did not include the operations of the Department of the Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, Judiciary, University of Hawaii, and the Water Pollution Control Revolving Fund, because these units separately engaged auditors to perform audits in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), or did not require an audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinion on Major Federal Programs

As described in Findings No. 2018-005, 2018-012, 2018-014 and 2018-016 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding:

Finding No.	CFDA No.*	Program or Cluster Name	Compliance Requirement
2018-005	12.114	Collaborative Research and Development (R&D Cluster)	Cash Management
2018-012	15.904	Historic Preservation Fund Grants-in-Aid	Earmarking
2018-014	17.225	Unemployment Insurance	Cash Management
2018-016	Various	WIOA Cluster	Earmarking

* *Catalog of Federal Domestic Assistance number*

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Major Federal Programs section, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified above for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2018-004, 2018-006 through 2018-011, 2018-013, 2018-015 and 2018-017. Our opinion on each major federal program is not modified with respect to these matters.

The State's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2018-005, 2018-0012, 2018-014 and 2018-016 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2018-004, 2018-006 through 2018-011, 2018-013, 2018-015 and 2018-017 to be significant deficiencies.

The State's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State of Hawaii's basic financial statements. We issued our report thereon dated December 14, 2018, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Department of Transportation – Airports and Harbors Divisions, the Hawaii Employer-Union Health Benefits Trust Fund, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. As described in Note 4 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Accuity LLP

Honolulu, Hawaii
March 6, 2019

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
U.S. Department of Agriculture Direct Programs			
Plant and Animal Disease, Pest Control and Animal Care	10.025	\$ 224,760	\$ -
Inspection Grading and Standardization	10.162	14,866	-
Market Protection and Promotion	10.163	17,800	-
Specialty Crop Block Grant Program – Farm Bill	10.170	503,130	-
Organic Certification Cost Share Programs	10.171	72,986	-
Senior Farmers Market Nutrition Program	10.576	365,081	339,983
Cooperative Forestry Assistance	10.664	972,770	-
Wood Utilization Assistance	10.674	10,427	-
Urban and Community Forestry Program	10.675	54,848	27,886
Forest Legacy Program	10.676	33,979	-
Forest Stewardship Program	10.678	137,828	-
Forest Health Protection	10.680	379,745	-
Watershed Protection and Flood Prevention	10.904	76,994	-
Environmental Quality Incentives Program	10.912	58,933	-
Food Distribution Cluster			
Commodity Supplemental Food Program	10.565	343,127	308,325
Emergency Food Assistance Program (Administrative Costs)	10.568	152,092	110,739
Emergency Food Assistance Program (Food Commodities)	10.569	1,373,371	1,373,371
Total Food Distribution Cluster		1,868,590	1,792,435
Total U.S. Department of Agriculture Direct Programs		4,792,737	2,160,304
Pass-through from the State Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster) (DHS-14-SNAP-919 and DHS-14-SNAP-920)	10.561	172,642	-
Total U.S. Department of Agriculture		4,965,379	2,160,304
U.S. DEPARTMENT OF COMMERCE			
U.S. Department of Commerce Direct Programs			
National Oceanic and Atmosphere Administration –			
Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement	11.U01	246,202	-
Band 14 Incumbent Spectrum Relocation	11.014	44,425	-
Interjurisdictional Fisheries Act of 1986	11.407	40,087	-
Fishery Products Inspection and Certification	11.413	12,619	-
Coastal Zone Management Administration Awards	11.419	2,074,224	1,110,888
Coastal Zone Management Estuarine Research Reserves	11.420	21,403	20,419
Marine Sanctuary Program	11.429	222,250	-
Pacific Fisheries Data Program	11.437	291,072	-
Meteorologic and Hydrologic Modernization Development	11.467	576,305	-
Unallied Science Program	11.472	558,090	-
Office for Coastal Management	11.473	3,456	3,456
Coral Reef Conservation Program	11.482	624,109	-
State and Local Implementation Grant Program	11.549	196,323	-
Manufacturing Extension Partnership	11.611	464,689	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
Economic Development Cluster			
Economic Adjustment Assistance	11.307	904,408	2,000
Total Economic Development Cluster		904,408	2,000
Total U.S. Department of Commerce		6,279,662	1,136,763
U.S. DEPARTMENT OF DEFENSE			
U.S. Department of Defense Direct Programs			
Collaborative Research and Development	12.114	2,508,897	-
National Guard Military Operations and Maintenance Projects	12.401	22,848,406	-
National Guard ChalleNGe Program	12.404	5,343,817	-
Economic Adjustment Assistance for State Governments	12.617	301,889	241,648
Air Force Defense Research Sciences Program	12.800	27,051	-
Total U.S. Department of Defense		31,030,060	241,648
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
U.S. Department of Housing and Urban Development Direct Program			
Fair Housing Assistance Program – State and Local	14.401	138,359	-
Total U.S. Department of Housing and Urban Development		138,359	-
U.S. DEPARTMENT OF THE INTERIOR			
U.S. Department of the Interior Direct Programs			
Fish and Wildlife Management Assistance	15.608	69,118	-
Coastal Wetlands Planning, Protection and Restoration	15.614	113,404	-
Cooperative Endangered Species Conservation Fund	15.615	1,822,126	-
Clean Vessel Act	15.616	100,722	-
Coastal Program	15.630	49,761	-
Partners for Fish and Wildlife	15.631	26,182	-
State Wildlife Grants	15.634	783,927	-
Endangered Species Conservation – Recovery Implementation Funds	15.657	1,490,393	-
Economic, Social and Political Development of the Territories	15.875	392,986	-
Historic Preservation Fund Grants-In-Aid	15.904	104,871	-
Outdoor Recreation – Acquisition, Development and Planning	15.916	177,436	125,686
Natural Resource Stewardship	15.944	35,744	-
Fish and Wildlife Cluster			
Sport Fish Restoration	15.605	3,429,414	252,942
Wildlife Restoration and Basic Hunter Education	15.611	4,806,323	-
Total Fish and Wildlife Cluster		8,235,737	252,942
Total U.S. Department of the Interior		13,402,407	378,628
U.S. DEPARTMENT OF JUSTICE			
U.S. Department of Justice Direct Programs			
Domestic Cannabis Eradication Suppression Program	16.U01	95,392	-
Services for Trafficking Victims	16.320	176,637	167,909
Crime Victim Compensation	16.576	229,000	-
Total U.S. Department of Justice Direct Programs		501,029	167,909

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
Pass-through from the U.S. Drug Enforcement Agency Domestic Cannabis Eradication and Suppression Program (2017-67)	16.U02	43,308	-
Pass-through from the State Department of the Attorney General Crime Victim Assistance/Discretionary Grants (16-XT-01)	16.582	7,481	-
Violence Against Women Formula Grants (14-WF-10)	16.588	11,812	-
Residential Substance Abuse Treatment for State Prisoners (12-RT-01, 13-RT-01, and 14-RT-01)	16.593	99,266	-
Edward Byrne Memorial Justice Assistance Grant Program (14-DJ-08 and 15-DJ-07)	16.738	25,998	-
Paul Coverdell Forensic Sciences Improvement Grant Program (16-CD-02)	16.742	34,827	-
Edward Byrne Memorial Competitive Grant Program (16-XT-01)	16.751	8,170	-
Pass-through from the Council of State Governments Edward Byrne Memorial Competitive Grant Program (20-RR-BX-K071)	16.751	38,324	-
Pass-through from the City and County of Honolulu Prosecuting Attorney's Office Edward Byrne Memorial Justice Assistance Grant Program (2015-DC-NY-K-002)	16.738	65,295	-
Total U.S. Department of Justice Pass-through Programs		334,481	-
Total U.S. Department of Justice		835,510	167,909
U.S. DEPARTMENT OF LABOR			
U.S. Department of Labor Direct Programs			
Labor Force Statistics	17.002	634,827	-
Compensation and Working Conditions	17.005	92,643	-
Unemployment Insurance	17.225	193,845,050	-
Senior Community Service Employment Program	17.235	1,420,889	1,420,889
Trade Adjustment Assistance	17.245	973,690	-
H-1B Job Training Grants	17.268	331,897	-
Work Opportunity Tax Credit Program	17.271	76,102	-
Temporary Labor Certification for Foreign Workers	17.273	48,460	-
WIOA National Dislocated Workers Grants / WIA National Emergency Grants	17.277	24,299	-
WIA / WIOA Dislocated Worker National Reserve Technical Assistance and Training	17.281	4,163	-
Apprenticeship USA Grants	17.285	561,734	-
Occupational Safety and Health – State Program	17.503	1,495,646	-
Consultation Agreements	17.504	495,063	-
Employment Service Cluster			
Employment Service / Wagner-Peyser Funded Activities	17.207	3,211,445	-
Disabled Veterans' Outreach Program	17.801	343,576	-
Local Veterans' Employment Representative Program	17.804	245,368	-
Total Employment Service Cluster		3,800,389	-
WIOA Cluster			
WIOA Adult Program	17.258	1,761,141	1,441,031
WIOA Youth Activities	17.259	2,046,564	1,599,393
WIOA Dislocated Worker Formula Grants	17.278	1,640,941	1,096,774
Total WIOA Cluster		5,448,646	4,137,198
Total U.S. Department of Labor		209,253,498	5,558,087

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION			
U.S. Department of Transportation Direct Program			
Space Transportation Infrastructure Matching Grants	20.110	60,125	-
Highway Planning and Construction Cluster			
Recreational Trails Program	20.219	<u>620,716</u>	<u>-</u>
Total Highway Planning and Construction Cluster		<u>620,716</u>	<u>-</u>
Total U.S. Department of Transportation Direct Programs		680,841	-
Pass-through from the State Department of Transportation			
Federal Transit Administration			
Federal Transit – Capital Investment Grants (Federal Transit Cluster) (HI-03-0038-00)	20.500	<u>246,284</u>	<u>-</u>
Total U.S. Department of Transportation		<u>927,125</u>	<u>-</u>
U.S. DEPARTMENT OF THE TREASURY			
U.S. Department of Treasury Direct Program			
State Small Business Credit Initiative	21.U01	<u>1,292,630</u>	<u>1,292,630</u>
Total U.S. Department of the Treasury		<u>1,292,630</u>	<u>1,292,630</u>
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
U.S. Equal Employment Opportunity Commission Direct Program			
Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	30.002	<u>99,338</u>	<u>-</u>
Total U.S. Equal Employment Opportunity Commission		<u>99,338</u>	<u>-</u>
U.S. GENERAL SERVICES ADMINISTRATION			
U.S. General Services Administration Direct Program			
Donation of Federal Surplus Personal Property	39.003	<u>546,362</u>	<u>-</u>
Total U.S. General Services Administration		<u>546,362</u>	<u>-</u>
U.S. NATIONAL ENDOWMENT FOR THE ARTS			
U.S. National Endowment for the Arts Direct Program			
Promotion of the Arts – Partnership Agreements	45.025	<u>706,413</u>	<u>214,684</u>
Total U.S. National Endowment for the Arts		<u>706,413</u>	<u>214,684</u>
U.S. SMALL BUSINESS ADMINISTRATION			
U.S. Small Business Administration Direct Program			
State Trade Expansion	59.061	<u>494,490</u>	<u>7,357</u>
Total U.S. Small Business Administration		<u>494,490</u>	<u>7,357</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS			
U.S. Department of Veterans Affairs Direct Program			
Veterans Cemetery Grants Program	64.203	<u>35,872</u>	<u>-</u>
Total U.S. Department of Veterans Affairs		<u>35,872</u>	<u>-</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
U.S. Environmental Protection Agency Direct Program			
Performance Partnership Grants	66.605	<u>433,642</u>	<u>-</u>
Total U.S. Environmental Protection Agency Direct Program		<u>433,642</u>	<u>-</u>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
Pass-through from the State Department of Health Capitalization Grant for Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster) (HDOH/SDWB-CWRM)	66.468	223,600	-
Total U.S. Environmental Protection Agency		<u>657,242</u>	<u>-</u>
U.S. DEPARTMENT OF ENERGY			
U.S. Department of Energy Direct Programs State Energy Program	81.041	268,917	-
Weatherization Assistance for Low-Income Persons	81.042	218,237	211,393
State Energy Program Special Projects	81.119	30,741	14,009
Total U.S. Department of Energy		<u>517,895</u>	<u>225,402</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through from the State Department of Education Title I State Agency Program for Neglected and Delinquent Children and Youth (S013A150011)	84.013A	169,391	-
Pass-through from the State Department of Human Services Rehabilitation Services Vocational Rehabilitation Grants to States (DHS 16VR-3107, 17VR-4151, 17VR-4153 and 18VR-4262)	84.126	548,988	-
Pass-through from the State University of Hawaii Career and Technical Education – Basic Grants to States (V048A40011)	84.048A	96,543	-
Total U.S. Department of Education Pass-through Programs		<u>814,922</u>	<u>-</u>
Total U.S. Department of Education		<u>814,922</u>	<u>-</u>
U.S. ELECTION ASSISTANCE COMMISSION			
U.S. Election Assistance Commission Direct Program Help America Vote Act Requirements Payments	90.401	519,525	-
Total U.S. Election Assistance Commission		<u>519,525</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
U.S. Department of Health and Human Services Direct Programs Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	798,466	-
Refugee and Entrant Assistance – State Administered Programs	93.566	50,266	39,136
Community Services Block Grant	93.569	3,279,900	3,036,028
The Health Insurance Enforcement and Consumer Protections Grant Program	93.881	6,128	-
Total U.S. Department of Health and Human Services Direct Programs		<u>4,134,760</u>	<u>3,075,164</u>
Pass-through from the State Department of Human Services Temporary Assistance for Needy Families (TANF Cluster) (FAMS ID 1304 S-18-262, FAMS ID 605 S-17-262 and DHS-17-ETPO-4031)	93.558	188,245	57,691
Low-Income Home Energy Assistance Program (FAMIS ID 1597 MOA)	93.568	140,392	128,846
Total U.S. Department of Health and Human Services Pass-through Programs		<u>328,637</u>	<u>186,537</u>
Total U.S. Department of Health and Human Services		<u>4,463,397</u>	<u>3,261,701</u>

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor / Pass-through Grantor and Program Title (Pass-through Identifying Number)</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
U.S. Department of Homeland Security Direct Programs			
Boating Safety Financial Assistance	97.012	831,531	-
Community Assistance Program State Support Services Element	97.023	48,876	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	309,320	287,783
Hazard Mitigation Grant	97.039	34,449	-
National Dam Safety Program	97.041	44,131	-
Emergency Management Performance Grants	97.042	4,041,335	913,773
Cooperating Technical Partners	97.045	140,593	-
Pre-Disaster Mitigation	97.047	170,095	-
Port Security Grant Program	97.056	75,871	75,871
Homeland Security Grant Program	97.067	4,521,205	2,537,732
Preparing for Emerging Threats and Hazards	97.133	42,794	-
Total U.S. Department of Homeland Security		<u>10,260,200</u>	<u>3,815,159</u>
Total Expenditures of Federal Awards		<u>\$ 287,240,286</u>	<u>\$ 18,460,272</u>

(concluded)

See accompanying notes to the schedule of expenditures of federal awards.

State of Hawaii

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

1. Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services
- Department of Agriculture
- Department of Budget and Finance
- Department of Business, Economic Development and Tourism
- Department of Commerce and Consumer Affairs
- Department of Defense
- Department of Human Resources Development
- Department of Labor and Industrial Relations
- Department of Land and Natural Resources
- Department of Public Safety
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and accordingly, separate Uniform Guidance submissions are made (see Note 2).

2. Other State of Hawaii Departments and Agencies Not Included in the Accompanying Schedule of Expenditures of Federal Awards

The following is a summary of State of Hawaii departments and agencies that obtain separate Uniform Guidance audits or do not receive federal grants and, therefore, do not obtain an audit under the Uniform Guidance. Awards listed in these audit reports are not included in the accompanying SEFA:

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance and Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority
- Hawaii Tourism Authority
- Judiciary
- University of Hawaii
- Water Pollution Control Revolving Fund

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

3. Basis of Accounting

The basic financial statements of the State of Hawaii have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

4. Basis of Presentation

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Expenditures reported in the schedule are reported on the cash basis of accounting.

5. Nonmonetary Assistance

The SEFA contains values of a nonmonetary assistance program. As provided by program regulations, property received under the Donation of Federal Surplus Personal Property program (CFDA No. 39.003) is presented at the estimated fair value at the time of donation.

6. Unemployment Insurance

State unemployment tax revenues and government contributions are used to pay benefits under federally approved State unemployment law. Of the \$193,845,050 reported as expenditures for the Unemployment Insurance program (CFDA No. 17.225), \$177,245,623 represented expenditures of the State of Hawaii.

7. Relationship to Federal and State Financial Reports

The regulations and guidelines governing the preparation of federal and State financial reports vary by State and federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal and State financial reports do not necessarily agree with the amounts reported in the accompanying SEFA which is prepared as explained in Notes 3 and 4 above.

8. Indirect Costs

The State of Hawaii does not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

9. Research and Development Cluster Expenditures

The SEFA includes the following Research and Development amounts:

<u>Federal Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Direct Programs		
Urban and Community Forestry Program	10.675	\$ 54,848
Forest Stewardship Program	10.678	137,828
Total U.S. Department of Agriculture		<u>192,676</u>
U.S. Department of Commerce Direct Programs		
Interjurisdictional Fisheries Act of 1986	11.407	40,087
Marine Sanctuary Program	11.429	222,250
Pacific Fisheries Data Program	11.437	291,072
Coral Reef Conservation Program	11.482	624,109
Total U.S. Department of Commerce		<u>1,177,518</u>
U.S. Department of Defense Direct Programs		
Collaborative Research and Development	12.114	2,508,897
Air Force Defense Research Sciences Program	12.800	27,051
Total U.S. Department of Defense		<u>2,535,948</u>
U.S. Department of the Interior Direct Programs		
Fish and Wildlife Management Assistance	15.608	69,118
Cooperative Endangered Species Conservation Fund	15.615	1,822,126
State Wildlife Grants	15.634	783,927
Economic, Social and Political Development of the Territories	15.875	392,986
Natural Resource Stewardship	15.944	35,744
Total U.S. Department of the Interior		<u>3,103,901</u>
Total Research and Development Cluster		<u>\$ 7,010,043</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified
Internal control over financial reporting	
• Material weaknesses identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
• Significant deficiencies identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs	
• Material weaknesses identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
• Significant deficiencies identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported

Type of auditors’ report issued on compliance for major programs	Qualified
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An unmodified opinion was issued on the State of Hawaii’s compliance with its major federal programs for the year ended June 30, 2018, except for the requirements regarding cash management for the Research and Development Cluster and CFDA No. 17.225, *Unemployment Insurance*, and earmarking requirements for CFDA No. 15.904, *Historic Preservation Fund Grants-in-Aid*, and the WIOA Cluster, for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
--	---

Dollar threshold used to distinguish between type A and type B program	\$ 3,000,000
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
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State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Identification of Major Programs

Federal CFDA Number	Name of Federal Program or Cluster
12.401	National Guard Military Operations and Maintenance Projects
15.904	Historic Preservation Fund Grants-In-Aid
17.225	Unemployment Insurance
97.067	Homeland Security Grant Program
	Fish and Wildlife Cluster
15.605	Sport Fish Restoration
15.611	Wildlife Restoration and Basic Hunter Education
	WIOA Cluster
17.258	WIOA Adult Program
17.259	WIOA Youth Activities
17.278	WIOA Dislocated Worker Formula Grants
	Research and Development (R&D) Cluster
10.675	Urban and Community Forestry Program
10.678	Forest Stewardship Program
11.407	Interjurisdictional Fisheries Act of 1986
11.429	Marine Sanctuary Program
11.437	Pacific Fisheries Data Program
11.482	Coral Reef Conservation Program
12.114	Collaborative Research and Development
12.800	Air Force Defense Research Sciences Program
15.608	Fish and Wildlife Management Assistance
15.615	Cooperative Endangered Species Conservation Fund
15.634	State Wildlife Grants
15.875	Economic, Social and Political Development of the Territories
15.944	Natural Resource Stewardship

FINANCIAL STATEMENT FINDINGS

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section II – Financial Statement Findings

Finding No. 2018-001: Internal Control over Financial Reporting (Significant Deficiency)

State Department of Accounting and General Services

Condition

The State's internal control over financial reporting could be improved. During our audit of the fiscal year 2018 financial statements, we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the State's internal control over financial reporting.

The process used by the State Department of Accounting and General Services (DAGS) Accounting Division to consolidate required information from State departments and agencies to prepare the State's Comprehensive Annual Financial Report (CAFR) (e.g., preparing Governmental Funds financial statements on a modified accrual basis and the Government-Wide financial statements on an accrual basis) is inefficient, time consuming, and causes delays in statewide financial reporting.

Information necessary to prepare such accounting entries must be obtained from other State departments and agencies. In fiscal year 2018, DAGS requested formal reporting information packages to obtain the financial information from State departments but did not receive timely responses from some departments.

A similar finding was reported in the prior year as Finding No. 2017-001.

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The DAGS Accounting Division is responsible for preparing the CAFR in accordance with GAAP.

Effect

Due to the untimely submission of information to DAGS, inadequate review of journal entries by the departments, and issues in accounting for capital assets at the department level, various audit adjustments and reclassifications were necessary to properly report the fiscal year 2018 financial statements.

Various other misstatements were not corrected as they were deemed to be immaterial to the financial statements.

Cause and View of Responsible Officials

The deficiencies are due to inefficiencies in the financial statement preparation process, the lack of timely information from various departments, and the lack of adequate review at the departments.

Recommendation

DAGS should continue to develop well-defined, systematic, efficient and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Furthermore, individuals who perform reviews of journal entries at the departments should be adequately trained to review for proper source codes, appropriations, and object codes being used. Departments should perform a thorough review of post-closing journal entries to ensure all items from various schedules are reflected in the post-closing journal entries. Departments should also ensure any construction and information technology implementation projects performed directly by the departments are properly included and accounted for in capital assets schedules provided to DAGS.

Adherence to these policies and procedures will facilitate the processing of complete, accurate and timely financial information.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Finding No. 2018-002: Accounting for Component Units and Proprietary Funds
(Significant Deficiency)

State Department of Accounting and General Services

Condition

During fiscal year 2008, DAGS implemented a financial statement policy on reporting material component units (CU) and proprietary funds (PF), which indicated that only material CUs and PFs would be reported as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS. During the year ended June 30, 2013, DAGS revised its financial reporting policy to comply with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and 34*.

Consequently, although DAGS determined that the Stadium Authority, Hawaii Strategic Development Corporation, Hawaii Technology Development Corporation (HITDC), Natural Energy Laboratory of Hawaii, and Agribusiness Development Corporation met the definition of discretely presented CUs as defined in GASB Statement No. 61, these CUs did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented in the June 30, 2018 CAFR. Instead, these entities were reported as blended component units within the State's governmental activities and the governmental funds to which they were administratively attached.

DAGS also determined that the Department of Labor and Industrial Relations – Disability Compensation Fund, the Department of Public Safety – Correctional Industries Fund, the Department of Accounting and General Services – State Parking Revolving Fund, and the Department of Accounting and General Services – Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. However, they did not meet the materiality threshold under the State's financial reporting policy. Therefore, these PFs were not reported as PFs in the June 30, 2018 CAFR but were reported as part of the State's governmental activities and within the governmental funds to which they were administratively attached.

A similar finding was reported in the prior year as Finding No. 2017-002.

Criteria

CUs are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by GASB Statement No. 61. The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a discretely presented CU of the State.

Similarly, Enterprise Funds that meet the definition of proprietary funds established by GASB Statement No. 34 should be reported within the PF financial statements and the business-type activities in the government-wide financial statements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Effect

In accordance with the State's policy, the CUs and PFs noted above were incorrectly included in the governmental activities and respective governmental funds in the State's CAFR, rather than as discretely presented CUs or PFs, despite meeting the discretely presented CU and PF criteria under GAAP. A summary of account balances and funds that were incorrectly classified by State management is presented below (amounts expressed in millions):

	<u>Revenues</u>	<u>Expenditures</u>	<u>Assets</u>
Discretely presented component units			
Stadium Authority	\$ 7.6	\$ 11.9	\$ 92.7
Hawaii Strategic Development Corporation	0.6	2.0	8.9
Hawaii Technology Development Corporation	3.1	10.5	5.0
Natural Energy Laboratory of Hawaii	5.1	10.8	10.9
Agribusiness Development Corporation	3.4	28.1	40.2
Nonmajor proprietary funds			
Department of Accounting and General Services – State Parking Revolving Fund	\$ 3.9	\$ 3.8	\$ 15.2
Department of Accounting and General Services – State Motor Pool Fund	2.5	2.2	3.2
Department of Public Safety – Correctional Industries Fund	5.0	5.0	0.4
Department of Labor and Industrial Relations – Disability Compensation Fund	16.5	17.4	15.1

Cause and View of Responsible Officials

In determining which CUs and PFs should be presented as discretely presented CUs and nonmajor PFs in the CAFR, management did not follow the guidelines described in GASB Statements No. 61 and 34, respectively. DAGS also determined that some of the potential CUs and PFs are unable to close their accounting records and to complete audits in a timely manner, such that audited financial statements would not be available for the preparation of the CAFR. Therefore, application of GASB Statements No. 61 and 34 would require time and resources to complete and would likely delay the completion of the CAFR.

Recommendation

DAGS should consider changing the CAFR accounting and reporting policy to conform to the provisions of GASB Statements No. 34 and 61.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Finding No. 2018-003: IT General Control Deficiencies (Significant Deficiency)

Condition

Information technology (IT) is a strategic element of the State’s operations. Because of the high volume of transactions at the State, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit of the State for the year ended June 30, 2018, we performed an IT general controls review of selected State departments’ systems, including the following systems operated by the Department of Taxation (DoTAX) and Department of Labor and Industrial Relations (DLIR):

DoTAX	DLIR
ITPS	UI BPS
eFile (as it relates to data received from Hawaii Information Consortium)	UI Tax
GenTax	QWRS

Our review resulted in IT control deficiencies in the areas of logical security and change management.

Logical security

DoTAX

- Weak password security on the ITPS.
- Monitoring of unauthorized changes to the GenTax database is not performed.
- The GenTax project team reviewed the existing user review process used in 2017 and implemented a new process based on the employee rosters provided by the DoTAX personnel office in February and again in October 2018. The project team performed reviews of the security groups and functions assigned to production users to detect discrepancies related to current, terminated and transferred employees. The GenTax security matrix matching position titles to security groups, originally developed with branch managers, is maintained and reviewed by the project team. The branch managers were not required to participate in the fiscal year 2018 review process to follow up on any temporary access approved for special assignments, projects and the transitioning of transfers. Instead, they were informed of any discrepancies found and were asked to submit security cases as needed. After a stabilization period following the completion of rollout 5, the project team will perform a review of the security matrix with branch managers.

DLIR

- Terminated users are not consistently removed in a timely manner.

Change management

DoTAX

- Developers have access to the production environment in the ITPS and a shared account is used.

DLIR

- Developers have access to the production environment.

Collectively, the number and related nature of the IT control deficiencies resulted in an overall significant deficiency.

State of Hawaii

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

A similar finding was reported in the prior year as Finding No. 2017-003.

Criteria

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

Effect

Internal controls in the areas of logical security and change management address the following risks:

Logical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

Cause and View of Responsible Officials

The State's IT policies and procedures do not include internal control procedures addressing the risks discussed above or such controls are not consistently followed. The GenTax project managers believe the user access review performed adequately addresses the control objective.

Recommendation

We recommend that DoTAX and DLIR perform the following:

Logical Security

DoTAX

- Improve system password security parameters.
- Ensure user access rights are commensurate with job responsibilities and remove users who do not require access to the ITPS. The user access review should include a review by the branch managers.

DLIR

- Implement periodic terminated user reviews.

Change management

DoTAX

- Remove developers' access to the ITPS production environment.
- Replace shared accounts with unique user accounts.
- Implement monitoring procedures to detect unauthorized changes to the GenTax database.

DLIR

- Remove developers' access to the UI BPS, UI Tax, and QWRS production environment.

**FEDERAL AWARD FINDINGS
AND QUESTIONED COSTS**

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

Finding No. 2018-004: Schedule of Expenditures of Federal Awards (SEFA)
(Significant Deficiency)

Condition

The State's current accounting process does not track federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple federal awards, it must prepare and maintain separate accounting records outside of FAMIS, the State's accounting system, to be able to segregate the cash balances, receipts and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled into FAMIS periodically.

A similar finding was reported in the prior year as Finding No. 2017-004.

Criteria

The Office of Management and Budget (OMB) issued the Uniform Guidance, which requires non-federal entities that expend \$750,000 or more in federal awards in a year to have a Single Audit conducted on its federal award programs and SEFA.

The Uniform Guidance established responsibilities for auditees, including:

- Identify all federal awards received and expended and the federal programs under which they were received.
- Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- Prepare appropriate financial statements, including the SEFA.

Effect

Due to the deficiencies in internal control over SEFA preparation noted, material misstatements occurred in the SEFA that were not detected by management's internal controls, and were subsequently identified and corrected as part of our auditing procedures.

- For CFDA No. 10.568, Emergency Food Assistance Program – Administrative Costs (Food Distribution Cluster), amounts expended were overstated by approximately \$1,373,000 due to misclassification.
- For CFDA No. 10.569, Emergency Food Assistance Program – Food Commodities (Food Distribution Cluster), amounts expended and amounts reported as provided to subrecipients were understated by approximately \$1,373,000 due to misclassification.
- For CFDA Nos. 12.114, Collaborative Research and Development, and 12.800, Air Force Defense Research Sciences Program, amounts expended were understated and overstated, respectively, by approximately \$2,482,000.
- For CFDA No. 15.605, Sport Fish Restoration (Fish & Wildlife Cluster), amounts reported as provided to subrecipients were understated due to the omission of approximately \$253,000 in disbursements to subrecipients.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

- For the Workforce Innovation and Opportunity Act (WIOA) Cluster, which includes CFDA No. 17.258, WIOA Adult Program, CFDA No. 17.259, WIOA Youth Activities, and CFDA No. 17.278, WIOA Dislocated Worker Formula Grants, amounts reported as provided to subrecipients were understated due to the omission of approximately \$4,137,000 in disbursements to subrecipients.
- For CFDA No. 97.042, Emergency Management Performance Grants, amounts reported as provided to subrecipients were overstated by approximately \$351,000 due to a typographical error.

Cause and View of Responsible Officials

A thorough review of each department's reconciliation of its separate accounting records that track federal expenditures to FAMIS was not performed by someone knowledgeable to ensure that the expenditure amounts were accurate. Although formal reporting instructions were created by DAGS to establish internal control over preparing the SEFA and sent to other departments for the year ended June 30, 2018, certain departments failed to follow the instructions and process established by DAGS.

Recommendation

We recommend DAGS enforce its established process for preparing the SEFA. We also recommend DAGS provide training to the other departments to ensure proper information is provided by the departments for DAGS to accurately prepare the State's SEFA.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-005:	Cash Management (Material Weakness)	\$ _____ –
State Agency:	Department of Business, Economic Development & Tourism (DBEDT) – HITDC	
Federal Agency:	Department of Defense	
CFDA Number and Title:	12.114 – Collaborative Research & Development (R&D Cluster)	
Award Number and Award Year:	FA8650-15-2-5601 2015	
Repeat Finding?	Yes, Finding No. 2017-005	

Condition

During our audit, we examined 19 cash disbursements and identified eight instances in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. These disbursements totaled approximately \$104,000 and the time elapsed ranged from 39 to 147 days. While the expenditures were allowable costs under the grant, it does not appear the State disbursed these Federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The delays in processing cash drawdown requests exist due to differences between estimated cash needs and actual expenditures for a month, resulting in over or under draws depending on the actual expenditures for the month. As drawdowns are only performed monthly, any payments made at the end of the monthly drawdown period could be close to 30 days after the federal funds were received. Additionally, program management noted that the federal awarding agency must also approve payments, and that there are often delays in receiving its approval.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Recommendation

HITDC should design and implement internal controls over monitoring of cash management timeliness requirements and work with Air Force personnel to ensure timely disbursement of federal funds. HITDC should also work with DAGS and the State Department of Budget and Finance (B&F) to improve the design and implementation of cash management processes to minimize the time lag between the receipt and disbursement of federal funds. As HITDC can draw down funds via electronic funds transfer (EFT), consideration to this option should be given as to allow for more frequent drawdowns.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-006:	Cash Management (Significant Deficiency)	\$ _____ –
State Agency:	Department of Land and Natural Resources (DLNR)	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.605 – Sport Fish Restoration 15.611 – Wildlife Restoration and Basic Hunter Education (Fish & Wildlife Cluster)	
Award Number and Award Year:	F17AF00390 2018 F17AF00391 2018 F16AF00583 2017 F16AF00587 2017	
Repeat Finding?	No	

Condition

During our audit, we examined 40 cash disbursements and identified seven instances in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. These seven disbursements totaled approximately \$54,000 and the time elapsed ranged from 26 to 137 days. While the expenditures were allowable costs under the grant, it does not appear the State disbursed these Federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 for cash management compliance requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The lag in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

Recommendation

The State department should design and implement internal controls over monitoring of cash management timeliness requirements and work with DAGS and B&F to ensure timely disbursement of federal funds.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-007:	Suspension and Debarment (Significant Deficiency)	\$ _____
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.605 – Sport Fish Restoration (Fish & Wildlife Cluster)	
Award Number and Award Year:	F17AF00392 2018 F17AF00396 2018	
Repeat Finding?	No	

Condition

During our audit, we examined two contracts executed in fiscal year 2018, but noted no evidence indicating that DLNR verified whether the contractor was not federally suspended or debarred. We verified that the vendor was not suspended or debarred in the System for Award Management (SAM).

Criteria

According to 2 CFR 200.213, regulations restrict awards, subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from, ineligible from, or ineligible for participation in federal assistance programs or activities. Therefore, verification is required that either checks the SAM, collects a certification from the contractor, or adds a clause or condition to the contract.

Effect

Without performing a verification as noted in the above criteria, there is a possibility the contractor is suspended or debarred from receiving federal funds which could result in the State losing future federal funding.

Cause and View of Responsible Officials

DLNR personnel responsible for procurement believed that contracts with other State departments and agencies were exempt from suspension and debarment compliance checks.

Recommendation

The State department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for procurement of contracts, including requirements to ensure that vendors for federally funded contracts are checked against the federal SAM website to ensure the contractor is not suspended or debarred from receiving federal funds. Evidence of this check should be maintained within the contract file and be reviewed by the responsible person(s).

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-008:	Equipment Management (Significant Deficiency)	\$ _____
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.611 – Wildlife Restoration and Basic Hunter Education (Fish & Wildlife Cluster)	
Award Number and Award Year:	F16AF00583 2017 F16AF00587 2017	
Repeat Finding?	No	

Condition

During our audit, we examined four haphazardly selected equipment purchases for the Fish and Wildlife Cluster programs and identified two purchases totaling approximately \$109,000 that were not recorded in the State’s Fixed Asset Inventory System (FAIS) as of June 30, 2018 and two purchases totaling \$19,000 that were recorded one quarter beyond the period required under the State’s inventory policy.

Criteria

2 CFR Section 200.313 for equipment compliance requires the State to use, manage and dispose of equipment acquired under a federal grant in a manner consistent with State laws and procedures. In accordance with the State’s Inventory User Manual, “newly acquired property shall be recorded in the FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for the property.”

Effect

Failure to maintain an accurate inventory of equipment may result in unknown differences between the accounting records and the actual inventory of equipment.

Cause and View of Responsible Officials

The delay in recording was due to a lack of internal controls at remote branches for proper monitoring over acquisitions and timely record keeping. Timely record filings were delayed due to a lack of identification information where division personnel were waiting for license plate numbers. In one instance, the property custodian was working in the field, which delayed filing of the asset acquisition form.

Recommendation

The State department should implement controls within their programs to ensure that personnel comply with the State Inventory User Manual.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-009:	Cash Management (Significant Deficiency)	\$ _____ –
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
Award Number and Award Year:	F15AP00905 2016 F16AF00882 2016 F16AF00883 2016 F16AP00688 2016 F16AP00689 2016 F16AP01103 2016 F17AF01090 2017 F17AF01091 2017	
Repeat Finding?	Yes, Finding No. 2017-011	

Condition

During our audit, we examined 25 haphazardly selected cash disbursements and identified nine instances totaling approximately \$136,000 in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. For these nine instances, the time elapsed ranged from 26 to 57 days. While the expenditures were allowable costs under the grant, it does not appear the State disbursed these federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances from federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The lag in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

Additionally, there was a large drawdown for contract expenditures under a grant award with an approaching period end date to avoid the loss of awarded funds.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Recommendation

The State department should design and implement internal controls over monitoring of cash management timeliness requirements, work with DAGS and B&F to ensure timely disbursement of Federal funds, and ensure personnel have adequate knowledge of cash management requirements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-010:	Suspension and Debarment (Significant Deficiency)	\$ _____
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
Award Number and Award Year:	F16AF00883 2018	
Repeat Finding?	No	

Condition

During our audit, we examined one contract executed in fiscal year 2018 but found no evidence indicating that DLNR verified whether the contractor was not federally suspended or debarred. We verified that the vendor was not suspended or debarred in the SAM.

Criteria

According to 2 CFR 200.213, regulations restrict awards, subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from, ineligible from, or ineligible for participation in federal assistance programs or activities. Therefore, verification is required that either checks the SAM, collects a certification from the contractor, or adds a clause or condition to the contract.

Effect

Without performing a verification as noted in the above criteria, there is a possibility the contractor is suspended or debarred from receiving federal funds which could result in the State losing future federal funding.

Cause and View of Responsible Officials

DLNR personnel responsible for procurement indicated that a review of SAM.gov was performed prior to the execution of the contract extension; however, no formal documentation of the review was retained in the contract file.

Recommendation

The State department should ensure that responsible individuals have the proper knowledge of the State's policies and procedures for procurement of contracts, including requirements to ensure that vendors for federally funded contracts are checked against the federal SAM website to ensure the contractor is not suspended or debarred from receiving federal funds. Evidence of verification checks should also be maintained in the contract file and reviewed by the responsible person(s).

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-011:	Reporting (Significant Deficiency)	\$ _____ –
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)	
Award Number and Award Year:	F17AF01090 2018	
Repeat Finding?	No	

Condition

During our audit, we examined five financial reports for compliance with reporting requirements and identified one instance in which reported expenditures were misstated. The financial report for the period ended September 30, 2018 included expenditures beyond the report period end date, resulting in an overstatement of federal expenditures of approximately \$20,000. As the program utilizes a cash basis of accounting, expenditures beyond the report end date should not have been included.

Criteria

Under 2 CFR 200.327, the federal awarding agency may require the collection of financial information. The federal awarding agency requires federal and recipient shares of program expenditures to be reported with accuracy and completeness in financial reports. The reported federal share of expenditures should include all activity up to the report period end date.

Effect

The discrepancy between the actual and reported amounts results in inaccurate financial reporting, which reduces transparency on the use of program funds and the proportion of federal and non-federal expenditures.

Cause and View of Responsible Officials

DLNR personnel responsible for reporting was new to the position; in the financial report for the period ended September 30, 2018, the preparer notated the inclusion of \$20,000 for disbursements during the month ended October 31, 2018.

Recommendation

The State department should implement review processes and ensure that individuals responsible for preparing and reviewing reports are provided the information and training to fulfill reporting requirements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-012:	Earmarking (Material Weakness)	\$ _____ –
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.904 – Historic Preservation Fund Grants-In-Aid	
Award Number and Award Year:	P17AF00003 2016 P17AF00042 2017	
Repeat Finding?	Yes, Finding No. 2017-012	

Condition

During our audit, we noted 10% of federal funds awarded were not obligated to certified local governments (CLGs) within the first year of award P17AF00042, and 10% of the federal funds were not expended for transfers to local governments by the end of the second year for award P17AF00003.

Criteria

Recipients are required to pass through at least 10% of each year’s award as subgrants to CLGs or they will be recaptured by the National Park Service (NPS). According to paragraph (4) of Section 3029-02(c) of the National Historic Preservation Act, not less than 10% of the annual apportionment shall be transferred by the State to CLGs for historic preservation projects or programs of the CLGs.

Effect

Failure to comply with the awards earmarking requirements results in noncompliance with the terms of the award and may result in the recapture of funds by the awarding agency.

Cause and View of Responsible Officials

NPS funding of the Historic Preservation Fund Grants-in-Aid program to the State Historic Preservation Division (SHPD) was not awarded until late in the grant years. Award P17AF00003, with a grant period of October 1, 2015 through September 30, 2017, was issued on October 17, 2016, after the end of the first year of the award. In addition, the third modification to the grant which extended the grant period end date from September 30, 2017 to September 30, 2018 was not received until August 20, 2018, 11 months into the 12-month extension period. Delays in project approvals further hindered contracting and fulfillment of CLG fund transfers.

Likewise, award P17AF00042, with a grant period of October 1, 2016 through September 30, 2018, was issued on August 15, 2017, over ten months into the first year of the award. Also, the second and final modification extended the grant through September 30, 2018 and included the final increment of federal funds but was not received until August 15, 2018, which left only one month left in the grant period.

Recommendation

The State department should continue to work with the federal awarding agency and seek guidance on how it can meet earmarking requirements when there are delays in the awarding of the federal grants.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-013:	Special Tests and Provisions (Significant Deficiency)	\$ _____ –
State Agency:	DLNR	
Federal Agency:	Department of the Interior	
CFDA Number and Title:	15.904 – Historic Preservation Fund Grants-In-Aid	
Award Number and Award Year:	P17AF00042 2017	
Repeat Finding?	Yes, Finding No. 2017-013	

Condition

During our audit, we examined three National Register property nominations and noted there was no available evidence to verify that SHPD entered into a memorandum of understanding or agreement with Native Hawaiian organizations in assessing the cultural significance of the nominated properties.

Criteria

Pursuant to Section 101(d), subsection (6)(c) of the National Historic Preservation Act, the State must enter into a memorandum of understanding or agreement with Native Hawaiian organizations for the assessment of the cultural significance of any property in determining whether to nominate such property to the National Register, and to carry out the cultural component of such preservation program or plan.

Effect

Failure to enter into memorandums of agreement or understanding with Native Hawaiian organizations in determining the cultural significance of nominated properties could lead to a preservation plan that does not adequately address the property’s cultural significance. A lack of an agreement with Native Hawaiian organizations may result in SHPD losing its Federal funding.

Cause and View of Responsible Officials

Program management believes the objectives of the memorandums of understanding or agreement with Native Hawaiian organizations were met through alternative means.

Recommendation

The State department should either clarify with the federal awarding agency whether the memorandums of understanding or agreement with Native Hawaiian organizations are required, or develop procedures and controls to ensure that the memorandums are executed.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-014:	Cash Management (Material Weakness)	\$ _____ –
State Agencies:	DLIR and B&F	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.225 – Unemployment Insurance	
Award Number and Award Year:	UI-31289-18-55-A-15 2018	
Repeat Finding?	Yes, Finding No. 2017-014	

Condition

The Treasury-State Agreement for the year ended June 30, 2018 was not executed until February 15, 2018. As such, there was no Treasury-State Agreement in effect for the first 7.5 months of the fiscal year ended June 30, 2018. During our audit, we tested a haphazard selection of four federal cash draws for payroll and administrative expenses, drawn during the period from February 15, 2018 to June 30, 2018, for compliance with federal cash management requirements specified in the Treasury-State Agreement, and found three instances in which the funding techniques used did not coincide with those required in the Treasury-State Agreement.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205, Subpart A, requires that major federal assistance programs be covered by a Treasury-State Agreement.

According to the fiscal year 2018 Treasury-State Agreement, direct administrative and payroll costs must be drawn on the payroll cycle on the date of clearance of payroll.

Effect

The lack of a Treasury-State Agreement may result in disbursements of federal funds that are not in accordance with federal cash management requirements and do not comply with 31 CFR Section 205, Subpart A. Deviations from the funding techniques specified in the Treasury-State Agreement result in advances or reimbursements of federal cash. A delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government and a reimbursement requires the use of State funds.

Cause and View of Responsible Officials

B&F is responsible for coordinating and negotiating the Treasury-State Agreement with the U.S. Department of Treasury. In August 2017, B&F designated such responsibilities to the Office of Federal Awards Management (OFAM), an office within B&F. Prior to the finalization of the Treasury-State Agreement for the year ended June 30, 2018, the State was required to finalize Treasury-State Agreements for fiscal years ended June 30, 2016 and 2017, which were executed December 4, 2017 and January 18, 2018, respectively. The Treasury-State Agreement for the fiscal year ending June 30, 2019 was executed timely on July 5, 2018.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Recommendation

B&F should implement internal controls over cash management to ensure that the Treasury-State Agreement is negotiated and executed in a timely manner.

The State DLIR should make arrangements to prepare fund requests to better align with regularly scheduled payroll check dates. Alternatively, the State DLIR may seek to update the funding technique specified in future Treasury-State agreements.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-015:	Cash Management (Significant Deficiency)	\$ _____ –
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.258 – WIOA Adult Program 17.259 – WIOA Youth Activities 17.278 – WIOA Dislocated Worker Formula Grants (WIOA Cluster)	
Award Number and Award Year:	AA-28312-16-55-A-15 2017	
Repeat Finding?	No	

Condition

During our audit, we examined 15 cash disbursements and identified two instances in which the time elapsing between the receipt of federal cash draws and the disbursement payment to vendors was greater than 25 days. The two disbursements totaled approximately \$7,000 and the time elapsed was 28 and 96 days. While the expenditures were allowable costs under the grant, it does not appear the State disbursed these Federal advances as soon as administratively feasible.

Criteria

U.S. Department of the Treasury Regulations 31 CFR Section 205.33 requires the State to minimize the time between the receipt of federal funds from the federal government and the State's disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Based on our testing, we determined 25 days to be a reasonable period of time to disburse cash after receipt from the federal government.

Effect

The delay in disbursing advances of federal funding prevents the use of those funds for more urgent purposes by the federal government. This could also result in the State losing future federal funding or the granting agency requiring funding on a reimbursable basis.

Cause and View of Responsible Officials

The 28-day lag in disbursing the funds was attributed to the State's manual deposit and payment process that requires all State departments to process deposits through B&F and payments through DAGS resulting in processing delays.

The 96-day lag was due to delays of the reimbursement request caused by the subrecipient contract needing to be re-signed.

Recommendation

The State department should design and implement internal controls over monitoring of cash management timeliness requirements and work with DAGS and B&F to ensure timely disbursement of federal funds.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-016:	Earmarking (Material Weakness)	\$ _____ –
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.258 – WIOA Adult Program 17.259 – WIOA Youth Activities 17.278 – WIOA Dislocated Worker Formula Grants (WIOA Cluster)	
Award Number and Award Year:	AA-28312-16-55-A-15 2017	
Repeat Finding?	No	

Condition

During our audit, we tested the State’s compliance with the requirement to allocate a minimum of 20% of local youth activities funds for work experience for program year 2016 (PY16), covering the period July 1, 2016 to June 30, 2018. We noted only 12.53% of the PY16 local youth activity funds were allocated for work experience expenditures.

Criteria

According to Section 129(c)(4) of the Workforce Innovation and Opportunity Act, not less than 20% of the funds allocated to the local area, except for local area administrative costs, shall be used to provide in-school and out-of-school youth work experience activities.

Effect

Failure to comply with the award’s earmarking requirements results in noncompliance with the terms of the award and could result in sanctions by the awarding agency.

Cause and View of Responsible Officials

PY 16 was the first program year that local areas were required to collect work experience expenditures. The low expenditure was largely driven by the lack of a system to capture the work experience expenses in the Oahu local area (which has the largest allocation of funds), where the reported work experience was only 10.69% and Maui where the reported work experience was 4.48%. Additionally, the Maui Youth Service provider did not have a case manager for part of the year, which hindered their ability to develop work experiences for their participants.

Recommendation

The State department should establish stronger procedures to ensure the respective counties are following the 20% work experience earmarking requirement.

State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

		Questioned Cost
Finding No. 2018-017:	Subrecipient Monitoring (Significant Deficiency)	\$ _____
State Agency:	DLIR	
Federal Agency:	Department of Labor	
CFDA Number and Title:	17.258 – WIOA Adult Program 17.259 – WIOA Youth Activities 17.278 – WIOA Dislocated Worker Formula Grants (WIOA Cluster)	
Award Number and Award Year:	AA-28312-16-55-A-15 2017	
Repeat Finding?	No	

Condition

During our audit, we examined two subrecipient monitoring reports and identified one instance in which DLIR did not review the subrecipient’s audit report to ensure the subrecipient took timely and appropriate action on deficiencies found in the subrecipient audit.

Criteria

2 CFR Sections 200.331(d) and (f) require a pass-through entity to ensure that audits under the Uniform Guidance are performed when required and evaluated for any applicable findings.

Effect

Without reviewing the subrecipient’s audit report, there was no verification that subrecipients were following up on deficiencies that could affect the WIOA Cluster programs.

Cause and View of Responsible Officials

The failure to review the subrecipient’s single audit report was due to the WIOA program personnel misinterpreting the compliance requirements.

Recommendation

The State department should establish stronger procedures to ensure all subrecipient audit reports are reviewed during the subrecipient monitoring process.

DAVID Y. IGE
GOVERNOR



CURT T. OTAGURO
COMPTROLLER
AUDREY HIDANO
DEPUTY COMPTROLLER

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P. O. BOX 119, HONOLULU, HAWAII 96810-0119

March 6, 2019

ACC 19.U009

Accuity LLP
First Hawaiian Center
999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813

Gentlemen:

Thank you for the opportunity to provide comments on the Schedule of Findings and Questioned Costs issued in connection with the Single Audit of Federal Financial Assistance Programs for the fiscal year ended June 30, 2018. We have also attached our comments on the status of prior audit findings.

We commend Accuity LLP's staff for the cooperative and professional manner in which they conducted themselves during this audit.

If you have any questions, please call Ms. Lenora D. Fisher, Accounting Division at 586-0600.

Sincerely,

CURT T. OTAGURO
Comptroller

Attachments

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2017-001	Internal Control Over Financial Reporting	DAGS	Significant Deficiency		X	2018-001
2017-002	Accounting for Component Units and Proprietary Funds	DAGS	Significant Deficiency		X	2018-002
2017-003	IT General Control Deficiencies	DAGS; Enterprise Technology Services; DoTAX	Significant Deficiency		X	2018-003
2017-004	Schedule of Expenditures of Federal Awards	DAGS	Significant Deficiency		X	2018-004
2017-005	Cash Management	DBEDT	Material Weakness		X	2018-005
2017-006	Reporting	DBEDT	Significant Deficiency		X	
2017-007	Cash Management	Department of Defense (DOD) and B&F	Material Weakness	X		
2017-008	Allowable Costs	DOD	Significant Deficiency	X		
2017-009	Cash Management	DBEDT	Material Weakness	X		
2017-010	Reporting	DBEDT	Significant Deficiency		X	
2017-011	Cash Management	DLNR	Significant Deficiency		X	2018-009
2017-012	Earmarking	DLNR	Material Weakness		X	2018-012
2017-013	Special Tests and Provisions	DLNR	Significant Deficiency		X	2018-013
2017-014	Cash Management	DLIR and B&F	Material Weakness		X	2018-014
2017-015	Eligibility	DLIR	Significant Deficiency	X		
2017-016	Reporting	DLIR	Significant Deficiency	X		

(continued)

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding No.	Description	Department	Classification	Status		Current Year Finding No.
				Resolved	Unresolved	
2017-017	Special Tests and Provisions	DLIR	Significant Deficiency	X		
2017-018	Reporting	DLIR	Significant Deficiency	X		
2016-005	Cash Management	DLNR	Significant Deficiency	X		
2014-025	Reporting	DOD	Significant Deficiency		X	
2013-031	Unrecorded and Untimely Recorded Property Acquisitions	DLNR	Significant Deficiency		X	
2013-032	Untimely Recorded Property Acquisition	DLNR	Significant Deficiency		X	
2012-25	Acquisitions Not Recorded in FAIS	Department of Public Safety (DPS)	Significant Deficiency		X	
09-01	Improve Controls over Inmate Agency Accounts	DPS	Material Weakness		X	

(concluded)

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Corrective Actions Taken for Unresolved Findings

Finding No. 2017-001: Internal Control Over Financial Reporting

In fiscal year 2018, DAGS requested formal reporting information packages from State departments but did not receive timely responses from some departments. As a current year finding (Finding No. 2018-001) is reported, Finding No. 2017-001 will not be carried forward.

Finding No. 2017-002: Accounting for Component Units and Proprietary Funds

No corrective action was taken in fiscal year 2018. As a current year finding (Finding No. 2018-002) is reported, Finding No. 2017-002 will not be carried forward.

Finding No. 2017-003: IT General Control Deficiencies

Corrective actions were taken in fiscal year 2018 to mitigate a number of the previously reported deficiencies; however, corrective action is still ongoing. As a current year finding (Finding No. 2018-003) is reported, Finding No. 2017-003 will not be carried forward.

Finding No. 2017-004: Schedule of Expenditures of Federal Awards

Formal reporting instructions were created by DAGS and sent to other departments and agencies for the year ended June 30, 2018. As a current year finding (Finding No. 2018-004) is reported, Finding No. 2017-004 will not be carried forward.

Finding No. 2017-005: Cash Management

DBEDT continues to improve its internal controls with compliance over cash management requirements. As a current year finding (Finding No. 2018-005) is reported, Finding No. 2017-005 will not be carried forward.

Finding No. 2017-006: Reporting

DBEDT has implemented stronger internal controls and is working on improving additional processes to be compliant with reporting requirements.

Finding No. 2017-010: Cash Management

DBEDT has implemented stronger internal controls and is working on improving additional processes to be compliant with cash management requirements.

Finding No. 2017-011: Cash Management

DLNR has developed various processes to improve its compliance with cash management requirements. As a current year finding (Finding No. 2018-009) is reported, Finding No. 2017-011 will not be carried forward.

Finding No. 2017-012: Earmarking

DLNR continues to improve its internal controls to be in compliance with earmarking requirements. As a current year finding (Finding No. 2018-012) is reported, Finding No. 2017-012 will not be carried forward.

Finding No. 2017-013: Special Tests and Provisions

DLNR has been working with the Federal Agency to clarify the memorandum of understanding/agreement requirements. As a current year finding (Finding No. 2018-013) is reported, Finding No. 2017-013 will not be carried forward.

Finding No. 2017-014: Cash Management

B&F has implemented processes to ensure compliance with the CMIA requirements. As a current year finding (Finding No. 2018-014) is reported, Finding No. 2017-014 will not be carried forward.

State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding No. 2014-025: Reporting

DOD filed its Federal Funding Accountability and Transparency Act (FFATA) report in January 2019. Implementation of the corrective action is considered completed in January 2019.

Finding No. 2013-031: Unrecorded and Untimely Recorded Property Acquisitions

DLNR has established a monitoring process and is strictly enforcing the process to ensure that new equipment purchases are reported in a timely manner. Implementation of the corrective action is anticipated to be completed by June 2019.

Finding No. 2013-032: Untimely Recorded Property Acquisition

DLNR has established a monitoring process and is strictly enforcing the process to ensure that new equipment purchases are reported in a timely manner. Implementation of the corrective action is anticipated to be completed by June 2019.

Finding No. 2012-25: Acquisitions Not Recorded in FAIS

DPS has established a monitoring process and enhanced its procedures to minimize the unrecorded and untimely recording of equipment purchases. Implementation of the corrective action is considered completed in December 2018.

Finding No. 09-01: Improve Controls over Inmate Agency Accounts

Additional funding to assist the programs in addressing Inmate Accounts issues was requested but not approved. Thus, no corrective action was taken in fiscal year 2018. Implementation of the corrective action is anticipated to be completed by December 2020 pending budget approval.

CORRECTIVE ACTION PLAN

STATE OF HAWAII

**CORRECTIVE ACTION PLAN
JUNE 30, 2018**

2018-003 – IT General Control Deficiencies (Significant Deficiency) (Page 22)

The Department of Tax (DoTax), and Department of Labor and Industrial Relations (DLIR) address their respective IT control deficiencies in the areas of logical security and change management as follows:

DLIR:

Logical Security

Terminated users are not consistently removed in a timely manner

Corrective Action Plan

Concur. The process has been modified so that terminated users are removed within seven calendar days. In addition, record management improvements include periodic review of terminated users.

Person Responsible Bennett Yap, DLIR IT Chief

Anticipated Date of Completion Completed

Change Management

Developers have access to the production environment

Corrective Action Plan

Concur. The process has been modified so that developers no longer have direct access to the UI Benefit, UI Tax and QWRS applications. Programmers are able to request access for certain emergency situations affected by job control language (JCL) and data files issues. A special login is provided for a limited time to address the emergency. This emergency process has been in use for the past year.

Developers follow the “N2O” process to make program changes, which include checks and balances to ensure appropriate access, program changes and approvals are captured in an audit log. Production user accounts have been updated and will be reviewed periodically.

Person Responsible Bennett Yap, DLIR IT Chief

Anticipated Date of Completion Completed

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2018

DOTAX:

Logical Security

Weak password security on the ITPS

Corrective Action Plan

Concur. As indicated in FY 2016, 2017, and 2018, additional changes cannot be made to utilize “strong passwords.” In order to mitigate the risk associated with this finding, we have developed and deployed training to educate DOTAX staff about information security requirements including password management.

Person Responsible	Rona Suzuki, DOTAX TSM Project Manager
Anticipated Date of Completion	ITPS will be decommissioned in late Calendar Year 2019. This will fully resolve this risk.

Monitoring of unauthorized changes to the GenTax database is not performed

Corrective Action Plan

Concur. There are two ways that changes are made to the GenTax database:

1. The majority of database changes are made using a GenTax service account (i.e., tools manager). The changes are subject to approval of an architect before being added to the service account for deployment (only authorized changes are made). This service account logs the changes made to the GenTax database. The architect can review the report of approved structural changes to the database in FCR.
2. In the event that a major change to the database needs to be made (e.g., during a rollout), the database administrators deploy database changes. There are presently two (2) GenTax vendor and two (2) DOTAX database administrators with read/write access to the production GenTax database. Changes made by the database administrators are logged in the SQL server audit which is stored in a secured share folder. The DBA group does not have permission to access this share; a separate SQL audit review domain group has read access to the share folder and can review the audit logs using an ad hoc report. In addition, SQL service broker services notifies the technical team and the audit review group if an audit is disabled or modified.

Person Responsible	Rona Suzuki, DOTAX TSM Project Manager
Anticipated Date of Completion	Resolved.

STATE OF HAWAII

**CORRECTIVE ACTION PLAN
JUNE 30, 2018**

GenTax user access reviews are not performed on an annual basis

Corrective Action Plan

Not Concur. User access in GenTax (and ITPS) was reviewed in February 2018. We have also setup a new process in which the DOTAX HR team will provide IT with a periodic report about the additions, deletions, and changes to the employee roster.

Person Responsible Rona Suzuki, DOTAX TSM Project Manager

Anticipated Date of Completion Not applicable

Change Management

Developers have access to the production environment in the ITPS and a shared account is used

Corrective Action Plan

Concur. This finding was also in the FY 2016, 2017, and 2018 audits. As reported previously, we have been unable to stop using a shared account for developer access to the production ITPS environment. In 2018, we indicated that we would improve the physical security of the primary computer the developers use to access the production environment. Accordingly, we changed the security of the computer to utilize an account with credentials that are changed every 90 days or when a staff member who knows the password leaves. There are presently five (5) DOTAX employees who know the credentials for this computer.

Person Responsible Rona Suzuki, DOTAX TSM Project Manager

Anticipated Date of Completion ITPS will be decommissioned in late Calendar Year 2019.
This will fully resolve this risk.

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2018

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-004 – Schedule of Federal Awards (Significant Deficiency)

(Page 24)

Corrective Action Plan

Concur. DAGS' management has developed a well-defined process for Federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA. DAGS will remind the departments to follow these established policies and procedures when preparing the SEFA.

Person Responsible Lenora D. Fisher, Administrator
DAGS Accounting Division

Anticipated Completion Date June 30, 2019

2018-005 – Cash Management (Material Weakness)

(Page 26)

State Department of Business, Economic Development and Tourism – HITDC

CFDA No. 12.114 – Collaborative Research and Development (R&D Cluster)
Direct award from the U.S. Department of Defense (Award FA8650-15-2-5601)

Corrective Action Plan

Concur. This is a well-documented concern which will require ongoing refinement. Practical circumstances outside of HTDC's control have shown it difficult for the program to consistently achieve the auditor's 25 day guideline. In 2015 HTDC implemented the recommendations of the auditor which actually made the performance worse. The project for this award is research & development with expected changes in timelines and scope of work, making forecasting of exact cash needs challenging. Furthermore, each deliverable, which are always varying and very complex, is inspected and verified to the invoice before approval of payment. Depending on the deliverable, this can add days to the disbursement process. DoD 3210.6-R 32.22 Allows advanced payments provided time from transfer of funds to disbursement be "minimized". Recognizing the 25 day turnaround has dependencies outside of HTDC's control, HTDC is adopting internal commitments that ensure the agency is performing its tasks in a timely matter. Thereby "minimizing" time elapsed between funding and disbursement. Deleting the requirement imposed to restrict transfers until invoices are approved by previous audits would help reduce local processing time. HCATT and HTDC will continue to work with DAGS and other local agencies to expedite the process.

HTDC and HCATT accepts the recommendations and will continue to refine cash management procedures. Specific corrective actions to include but not limited to:

1. Collect all monthly invoices and calculate anticipated expenses for cash draw request
2. Input all invoices within 3 days of HTDC's receipt
3. Hold summary warrant voucher to submit until funds are posted by B&F/DAGS

STATE OF HAWAII

**CORRECTIVE ACTION PLAN
JUNE 30, 2018**

4. Disburse checks as soon as administratively feasible

While HCATT/HTDC remains compliant with parameters of the co-operative agreement, we will continue to work with DBEDT, B&F, DAGS, as well as contractors to meet the 25 day threshold set by the auditors.

Person Responsible Ray Gomez, HTDC Controller

Anticipated Date of Completion March 1, 2019, ongoing refinement

2018-006 – Cash Management (Significant Deficiency) (Page 28)
State Department of Land and Natural Resources

CFDA Nos. 15.605 – Sport Fish Restoration
 15.611 – Wildlife Restoration and Basic Hunter Education
 (Fish and Wildlife Cluster)

Direct award from the U.S. Department of the Interior (Award nos. F17AF00390, F17AF00391, F16AF00583 and F16AF00587)

Corrective Action Plan

Concur. Divisions will review vendor paperwork in greater detail for compliance, prior to submitting invoices for processing/payment. If paperwork is returned, special attention will be given to expedite processing to allow for more immediate payment.

Divisions will implement a tracking system to monitor the drawdown to the time the Treasury Deposit Receipt is posted in Datamart and develop a federal cash flow worksheet to monitor cash balances. Divisions will also date stamp invoices with “Federal Fund Received” and attach a transmittal memo for all federal funded invoices being sent to the Fiscal Office for immediate processing/payment. Cash drawdowns will be processed at least two to three times per month.

Persons Responsible David Smith, DOFAW Administrator
 Brian Neilson, DAR Administrator
 Jason Redulla, DOCARE Administrator

Anticipated Date of Completion June 30, 2019

2018-007 – Suspension and Debarment (Significant Deficiency) (Page 29)
State Department of Land and Natural Resources

CFDA No.15.605 - Sport Fish Restoration (Fish and Wildlife Cluster)
Direct award from the U.S. Department of the Interior (Award nos. F17AF00392 and F17AF00396)

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**CORRECTIVE ACTION PLAN
JUNE 30, 2018**

Corrective Action Plan

Concur. Action immediately taken to ensure compliance; and SAM.gov checks initiated as prescribed procedures in all procurement actions.

Person Responsible Brian Neilson, DAR Administrator

Anticipated Date of Completion Completed January 4, 2019

2018-008 – Equipment Management (Significant Deficiency) (Page 30)
State Department of Land and Natural Resources

CFDA No.15.611 – Wildlife Restoration and Basic Hunter Education (Fish and Wildlife Cluster)
Direct award from the U.S. Department of the Interior (Award nos. F16AF00583 and F16AF00587)

Corrective Action Plan

Concur. Hawaii District purchased Iridium GPS collars from Advanced Telemetry Systems, Inc. and elected not to have individual decals assigned. These collars are very small and cannot fit the metallic decals. The decals also have sharp edges which could harm animals. The collars are built extremely smooth to avoid any chafing, so unless the decal can be easily fit to the collar without potential harm to animals, they are left off. In all other purchases decals are assigned to the equipment.

Property custodians (by district) will strictly monitor and make sure that new equipment purchased are reported in a timely manner.

Person Responsible David Smith, DOFAW Administrator

Anticipated Date of Completion June 30, 2019

2018-009 – Cash Management (Significant Deficiency) (Page 31)
State Department of Land and Natural Resources

CFDA No.15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)
Direct award from the U.S. Department of the Interior (Award nos. F15AP00905, F16AF00882, F16AF00883, F16AP00688, F16AP00689, F16AP01103, F17AF01090 and F17AF01091)

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2018

Corrective Action Plan

Concur. The Division of Forestry and Wildlife (DOFAW) implemented a tracking system to monitor the drawdown to the time the Treasury Deposit Receipt (TDR) is posted in Datamart. DOFAW also developed a federal cash flow worksheet to monitor cash balances. DOFAW is attaching a transmittal memo for all federal funded invoices being sent down to the Fiscal Office for their immediate processing/payment. To keep disbursements under 25 days, cash drawdowns are now being processed at least two to three times per month.

Person Responsible David Smith, DOFAW Administrator

Anticipated Date of Completion June 30, 2019

2018-010 – Suspension and Debarment (Significant Deficiency) (Page 33) **State Department of Land and Natural Resources**

CFDA No.15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)
Direct award from the U.S. Department of the Interior (Award no. F16AF00883)

Corrective Action Plan

Concur. DOFAW will make sure that documentation is printed out from SAM.gov and filed with the contract folder.

Person Responsible David Smith, DOFAW Administrator

Anticipated Date of Completion Completed January 2019

2018-011 – Reporting (Significant Deficiency) (Page 34) **State Department of Land and Natural Resources**

CFDA No.15.615 – Cooperative Endangered Species Conservation Fund (R&D Cluster)
Direct award from the U.S. Department of the Interior (Award no. F17AF01090)

Corrective Action Plan

Concur. The SF-425 Report for the period ended September 30, 2018 has been revised to report only actual expenditures incurred through September 30, 2018. The Division of Forestry and Wildlife (DOFAW) will ensure that all SF-425 Reports submitted will use the cash basis of accounting to report the federal share of program expenditures.

Person Responsible David Smith, DOFAW Administrator

Anticipated Date of Completion June 30, 2019

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**CORRECTIVE ACTION PLAN
JUNE 30, 2018**

**2018-012 – Earmarking (Material Weakness)
State Department of Land and Natural Resources**

(Page 35)

CFDA No.15.904 – Historic Preservation Fund Grants-In-Aid
Direct award from the U.S. Department of the Interior (Award nos. P17AF00003 and P17AF00042)

Corrective Action Plan

Concur. The SHPD concurs with the finding and statement of cause. However, with regard to it being a repeat finding of PY No. 2017-012, it must be noted that the funding for both grant awards were delayed for a considerable period of time by the National Park Service (NPS) which resulted in the SHPD's inability to issue the required 10% pass through to the Certified Local Governments participants during the term of the grants. The SHPD will continue to work with NPS to improve the communication for funding.

Person Responsible Alan S. Downer, Ph.D., SHPD Administrator

Anticipated Date of Completion June 30, 2019

**2018-013 – Special Tests Provisions (Significant Deficiency)
State Department of Land and Natural Resources**

(Page 36)

CFDA No.15.904 – Historic Preservation Fund Grants-In-Aid
Direct award from the U.S. Department of the Interior (Award no. P17AF00042)

Corrective Action Plan

Concur. The SHPD will continue to ensure that the proper procedures and controls are in place to meet all requirements for consulting Native Hawaiian organizations in accordance with grant award and Section 101(d) of the National Historic Preservation Act. The SHPD will continue to work with the NPS to obtain clarification on questions to specific requirements.

Person Responsible Alan S. Downer, Ph.D., SHPD Administrator

Anticipated Date of Completion June 30, 2019

**2018-014 – Cash Management (Material Weakness)
State Department of Labor and Industrial Relations and State Department of Budget and Finance**

(Page 37)

CFDA No.17.225 – Unemployment Insurance
Direct award from the U.S. Department of Labor (Award no. UI-31289-18-55-A-15)

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2018

Corrective Action Plan

Concur. The Treasury-State Agreement is handled by the State's Department of Budget and Finance (B&F) whose responsibilities include coordinating and finalizing the negotiations with the U.S. Department of the Treasury. The responsibility for the execution of this agreement has been assigned to the Office of Federal Awards Management.

Person Responsible Mark Anderson, OFAM Administrator

Anticipated Date of Completion Completed; FY 2019's agreement was executed 7/15/18.

2018-015 – Cash Management (Significant Deficiency) **State Department of Labor and Industrial Relations**

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CFDA Nos. 17.258 – WIOA Adult Program
 17.259 – WIOA Youth Activities
 17.278 – WIOA Dislocated Worker Formula Grants
 (WIOA Cluster)

Direct award from the U.S. Department of Labor (Award no. AA-28312-16-55-A-15)

Corrective Action Plan

Concur. The reasons for the two delays cited were the result of the Department of Accounting and General Services (DAGS) finding errors with the subrecipient contracts and requesting corrections before payments could be made. Since correcting contracts need the concurrence of the subrecipient; and possibly obtaining new wet signatures which all involve significant delays; the new process is to require immediate adjustments to drawdowns if the identified problem is with a contract.

Person Responsible Kathy Miyahira, Accountant IV

Anticipated Date of Completion Immediately

2018-016 – Earmarking (Material Weakness) **State Department of Labor and Industrial Relations**

(Page 40)

CFDA Nos. 17.258 – WIOA Adult Program
 17.259 – WIOA Youth Activities
 17.278 – WIOA Dislocated Worker Formula Grants
 (WIOA Cluster)

Direct award from the U.S. Department of Labor (Award no. AA-28312-16-55-A-15)

STATE OF HAWAII

CORRECTIVE ACTION PLAN JUNE 30, 2018

Corrective Action Plan

Concur. WDC program and fiscal staff will continue to monitor the monthly and quarterly work experience expenditure and advise the counties of the status of their work experience percentage; which will allow the counties to adjust their program efforts to meet the minimum percentage at the end of the program year. It is the practice of WDC to have telephone conferences with the counties' staff monthly to discuss program and fiscal issues. The minimum work experience percentage is one of the metrics reported to them at every meeting.

In addition, an informational bulletin will be issued by 3/31/19 reminding the local areas of the nine elements that are allowable work experience expenditures as provided by TEGLs 21-16 and 8-15. Local areas may not be including all of these allowable expenditures.

Person Responsible Allicyn H. Tasaka, Executive Director

Anticipated Date of Completion Immediate, 3/31/2019

2018-017 – Subrecipient Monitoring (Significant Deficiency) **State Department of Labor and Industrial Relations**

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CFDA Nos. 17.258 – WIOA Adult Program
 17.259 – WIOA Youth Activities
 17.278 – WIOA Dislocated Worker Formula Grants
 (WIOA Cluster)

Direct award from the U.S. Department of Labor (Award no. AA-28312-16-55-A-15)

Corrective Action Plan

Concur. Starting from this program year, PY18, WIOA program and fiscal staff are initiating desk monitoring in addition to the on-site monitoring that is conducted annually. WIOA fiscal staff will review all subrecipient single audit reports and complete the USDOL-ETA Core Monitoring Guide Check List for the audit reports.

Person Responsible Kathy Miyahira, Accountant IV

Anticipated Date of Completion June 30, 2019